Rhode Island Public Transit Authority

Joint Pension Board

Minutes of the February 11, 2008 Special Meeting

Joint Pension Board Members Present: Tom Deller, Robert Batting, Director Jerome Williams, Chuck Alves, Stephen Farrell, Christine Johnston and Kevin Millea

Also Present: Alfred J. Moscola, General Manager; Lori Caron Silveira, Esq., Outside General Counsel; Henry Kinch; Maureen Neira; Deborah Dawson; Ellen Mandly and members of the RIPTA staff and the general public.

Agenda Item 1: Presentation by David Ward, Angell Pension Group

Mr. Farrell opened the meeting and reminded those present that this was a special meeting of the Joint Pension Board. Mr. Farrell asked if the minutes of the January 28, 2008 meeting were ready for the Board's consideration and Ms. Silveria said they were not on the agenda for consideration and therefore could not be voted on.

Mr. Farrell moved on to the first agenda item, a presentation by David Ward, Director of Actuarial Services for the Angell Pension Group, Inc. Maureen Neira introduced Mr. Ward and informed them that Mr.

Ward's presentation would cover material included in the handout sent to the Joint Pension Board, and would address questions raised by JPB members. She also indicated that Mr. Ward would address assumptions utilized in conducting the annual plan valuation.

Mr. Ward explained that the objective of the annual valuation is to make a reasonable projection of contributions required to adequately fund the plan, both in the current year and for future years.

Mr. Ward addressed the issue of the mortality tables used in the valuation process. He stated that the RIPTA valuation has been utilizing the 1971 mortality tables. He explained to those present that mortality tables are not updated frequently, and stated that the tables become outdated approximately every 20 years. He advised the JPB that since the 1971 tables, there have been two major updates – the "83 GAM" and the "RP 2000". He continued that based on Angell's recommendation, RIPTA is updating to the 83 GAM in 2008. He continued that until the end of 2006, Angell did not feel it was necessary for RIPTA to change tables, and based upon the recommendation at the end of 2006, RIPTA included the cost of changing tables in the FY 2008 budget. He continued that Angell has also recommended changing to the RP 2000 in 2012 and reviewed with the JPB the approximate cost implications of such changes. Mr. Ward explained this as a gradual long-term approach which is very reasonable for RIPTA.

Mr. Batting asked how long Angell Pension had been representing RIPTA to which Mr. Ward responded 1996. Mr. Batting asked what percentage of Angell Pensions clients were government versus private and Mr. Ward said that government entities represented approximately 12% - 15% of their clientele and clarified that to be both pension and retiree medical benefits. Mr. Batting asked why Angell had not recommended that RIPTA use a more current mortality table sooner and Mr. Ward said he had he joined Angell Pension only last year and RIPTA's previous actuary had recommended the switch late in 2006. Mr. Ward continued to explain that the phase in plan is Angell's recommendation, and explained that "blue collar" mortality rates are usually different than the "white collar" rates upon which the tables are predicated.

Director Williams clarified which table Mr. Ward was recommending, and he replied both, the GAM for the first 4 years and RP 2000 after that. Mr. Batting asked about the funding levels of Mr. Ward's private clients, and he responded that most were funded between 65 and 90% adding that funding below 60% and above 90% is unusual. Mr. Ward continued that "defined benefit" plans are not common in the private sector, highlighting the significant cost of such a plan. Mr. Batting asked if the new IRS rules mandate a higher percentage of funding and Mr. Ward responded that any plans funded at a level less than 90% would be penalized, but continued that such funding requirements pertain to the private sector only, and do not apply to a publicly funded pension such as RIPTA. Mr. Batting brought up the

"Pension Benefit Guarantee Corporation" (PBGC) and asked Mr. Ward to explain it. Mr. Ward explained that the PBGC was an insurance company of sorts created by the government for the purpose of ensuring that pension plans were funded adequately. Mr. Farrell commented that the PBGC is not fully funded.

Mr. Ward summarized his comments on the mortality table matter by advising the JPB that moving to the 83 GAM table in 2008 and then to the RP 2000 in 2012 is a very reasonable position. He did advise the JPB that it is Angell's recommendation that when RIPTA moves to the RP 2000 table in 2012, that the first version of the table be implemented.

Mr. Ward then summarized the other changes to the assumptions that have been recommended. He stated that the assumptions for the valuations should be as consistent as possible between the salaried and hourly plans. He stated that Angell recommends using a frozen attained age funding method for both plans, which will result in a slight gain for the salaried plan. Mr. Ward moved on to the topic of the interest rate assumptions used for the valuation. He stated that a 7%-8% rate is reasonable but the determination of such depends on the investment policy. Currently, he continued the hourly plan has approximately 55%-65% of the assets in equities, and suggested that the salaried plan could possibly produce a higher yield if more of the funds were moved into equities.

Kevin Millea asked if there would be a savings if the monies were merged into one fund. Mr. Ward responded that would not necessarily be the case, pointing out the difference in formulas as the reason. Mr. Batting added that it is not unusual to have multiple benefit tiers under a single "umbrella" plan.

A discussion ensued regarding the level at which the actuarial valuation impacts the investment strategy. David Ward stated that the investment strategy, which is the responsibility of the investment managers drives the process and the actuaries (Angell) serve to assist in determining the overall liabilities.

Director Williams asked when the RIPTA plans would be fully funded to which Mr. Ward responded that in 2017 the salary plan would be funded at approximately 95% and in approximately 10 – 12 years, the hourly plan would be funded at approximately 85%. These projections include the incorporation of the new mortality tables as previously discussed. Director Williams continued that there are several areas where he would like to receive follow-up information and raised questions regarding the true liabilities of the plans, and target dates for funding the plans. Mr. Ward indicated that Angell can project required fund over a long term – such as 5-10 years.

Mr. Deller asked if the JPB had to take an action to approve the move to the GAM 83 mortality table, and Ms. Neira responded that no vote was necessary that it was included in the budget.

Mr. Batting asked Mr. Ward to what extent Angell was involved in the transfer of assets in December 2006. Mr. Ward responded that Angell was involved. Mr. Batting continued that it would be helpful for the JPB to sit down and look closely at asset allocation and stated it was his expectation that Mr. Guzman from Prudential return to RIPTA to attend a JPB meeting as soon as possible. Mr. Deller agreed with Mr. Batting, suggesting that the JPB come up with a list of questions that Mr. Guzman should be prepared to answer. There was additional discussion about the development of a funding plan based on asset allocations, and Director Williams suggested that the JPB consider hiring a custodian.

Mr. Farrell instructed staff to work on scheduling another special meeting of the JPB after the regular February 25th meeting for the purpose of discussion the JPB's next actions.

Mr. Farrell asked Director Williams to provide the JPB with additional details regarding the role of a custodian. Director Williams stated that a custodian would hold the plan's assets, conduct a monthly market analysis, and monitor dividends to ensure they are received and credited to the assets in a timely manner. He continued that a custodian holds the assets in the name of the company and suggested that there are a number of banks who perform such a service naming Citizens and State Street Bank as two examples.

Mr. Deller asked if the JPB wanted to include action item(s) on the next agenda, stating that it would be better to include the item on the agenda for a vote, and if the JPB did not wish to take an action, could table the item. It was agreed that action items regarding merging the assets of the hourly and salaried plans and the asset allocation policy would be included on the next meeting agenda for a vote by the JPB. The JPB also requested that sample RFP's for custodians be obtained for their review.

Mr. Batting raised a number of issues that require additional information. The issues raised include (1) the cost of investment management by plan as well as the administrative cost by plan; (2) confirmation of how the investment of the assets was mapped when the funds were transferred from Met to Prudential; (3) explanation as to why different rates of return are used for the two sets of assets; (4) actual fee schedule; (5) proposed asset allocation if all assets were merged; (6) whether any penalties could be imposed if assets were moved; and (7) the pros and cons of merging the assets of the two plans.

Agenda Item 2: Adjournment

A motion to adjourn was made by Mr. Deller and seconded by Ms.

Johnston. Such motion

passed unanimously and the meeting was adjourned.

Respectfully submitted,

Deborah A. Dawson, SPHR

AGM Human Resources/Chief of Staff